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Race for Farm Trade Heats Up in Hemisphere

TAKE PRIDE IN AMERICA ™

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PERSPECTIVES

CROPLAND IN USE IN THE UNITED STATES totaled an estimated 342 million acres in 1989, a significant gain from the record low of 328 million in 1988. Acreage harvested was also much higher—306 million acres as compared with 288 million in drought-ridden 1988. The record for harvested cropland was 351 million acres in 1981. Crops failed on 9 million acres in 1989, about 1 million less than in 1988 but still more than the normal failure rate of 5 million to 6 million.

The estimate on cropland use was issued in early autumn by the USDA's Economic Research Service. Eighty-five percent of the 401 million acres of cropland available in the United States was used for crops and the remainder, 59 million acres, was idled under programs sponsored by the federal government. By way of perspective, the cropland acreage idled under government programs in the current year is roughly equivalent to one-third of all the arable land in the European Community.

Cropland idled under annual programs in 1989 totaled 29 million acres, 55% of the acreage idled under those commodity programs in 1988. The change in annual retirement was the result of smaller acreage reduction requirements for corn, sorghum, barley, and wheat, and of reduced program participation rates. Participation declines can be attributed to lower target prices and higher market prices for most program crops.

By region, the only area of the United States in which the acreage harvested was lower in 1989 was in the Delta States. The decline there was largely attributed to poor weather for growing soybeans. Crop analysts reported that the weather not only delayed some planting but also damaged crops that had been planted. Cotton production also was down in the Delta States. Cotton was the only major crop with less total acreage under cultivation nationwide in 1989 than in 1988.

Land retired under the long-term Conservation Reserve Program, including that to be idled in 1990, rose by 5 million acres to 30 million acres. Farmers enrolling land in the CRP agree to keep their land out of production for at least 10 years. The government pays rental fees and maintains a cost-share program with farmers to establish permanent cover on the land enrolled in the CRP. During the August signup period, USDA received offers to place 4.2 million additional acres into the CRP. Based on the experience with past signups, actual contracted acreage will be less than what is offered. Final data will be available in December. The enrollment target for the CRP is 40-45 million acres by the end of 1990.

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FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

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The expansion of trade among the nations of the Western Hemisphere has forced their own producers to face growing competition in markets they once dominated. The United States, which remains as the principal exporter of farm products and the biggest market for its hemispheric neighbors, is also making the biggest adjustments.

U.S. Sets New Record in Grain Sales to the Soviet Union *by Jack Harrison* 8

In volume as well as total value, sales of U.S. grain to the Soviet Union were up substantially in fiscal 1989, to about 22 million tons and nearly $3 billion, with a high proportion in feedstuffs. ERS economists predict continued strong sales but not record sales during the current fiscal year.

A Green Forecast for Christmas Tree Sellers *by Carolyn Riley* 12

With the business expanding at about twice the rate of the general population, the value of live tree sales already is ahead of those for some other major farm commodities. Indicators are mixed for long-range growth, however, and some tree growers are pushing for a marketing order.

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A county-by-county illustration of wheat output in the United States in 1987 places Kansas, the leading producer, at the center. Data used in this two-page map are from the most recent "normal" year; inadequate rainfall in the last two years has disrupted production in some areas.

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Farm Trade Competition Heats Up in Hemisphere

Trade troubles for the United States have heated up in the Western Hemisphere during the 1980's, turning relatively placid agricultural trade flows into a sometimes stormy mix of changing relationships.

Countries that once were only customers for U.S. farm exports or sources of U.S. farm imports now openly challenge American traders for market share in world export markets of soybeans and grains.

And the push for freer farm trade among nations—by the United States and others in current high-level negotiations—may stir even more adjustments into what used to be a set of fairly predictable trade patterns.

Although the United States remains the principal farm exporter and farm import market in the Western Hemisphere, some significant shifts have already occurred in net trade flows.

"For example, until 1980, the United States had a growing positive agricultural trade balance with its most important trading partner, Canada," says economist Nicole Ballenger of USDA's Economic Research Service. "Since 1983, however, the U.S. trade balance with Canada has deteriorated and, in 1985, it turned negative."

The United States has faced growing competition since 1980 from nations in the Western Hemisphere, especially Argentina and Brazil.

On the export side, the United States has faced growing competition since 1980 from nations in the Western Hemisphere, especially Argentina and Brazil.

"These countries have boosted their food exports in the hemisphere and the rest of the world, while their agricultural trade surpluses with the United States have continued to grow," says Ballenger.

An Ongoing Struggle

What that means for the United States is a struggle to maintain Western Hemisphere export markets that have declined or slowed in growth.

"Some parts of the region, such as Mexico and the Andean, Central American, and Caribbean countries, face similar economic circumstances," says Ballenger. "The demand for their agricultural exports is growing quite slowly, while their own food needs are increasing rapidly. In these countries, agricultural trade plays a different, but no less important, role than in the United States."

As the decade of the 1980's draws to a close, the United States looks to the recent trade agreement with Canada to help stabilize its trade flows to the north.

Now attention is shifting south of the border—to Mexico, the other major hemispheric trading partner of the United States, and beyond.

"The trend in agricultural trade between the United States and Mexico has been nearly opposite of that between the United States and Canada," says Ballenger. "In the early 1980's, Mexico surpassed Canada as the largest Western Hemisphere market for U.S. agricultural exports."

Consequently, the U.S. agricultural trade balance with Mexico went from an average $273.4 million deficit in 1965-69 to an average $827.3 million surplus in 1980-84.

"In 1985-86, however, the pendulum swung back," says Ballenger. "The United States again ran an agricultural trade deficit with Mexico, which reached $940 million in 1986."

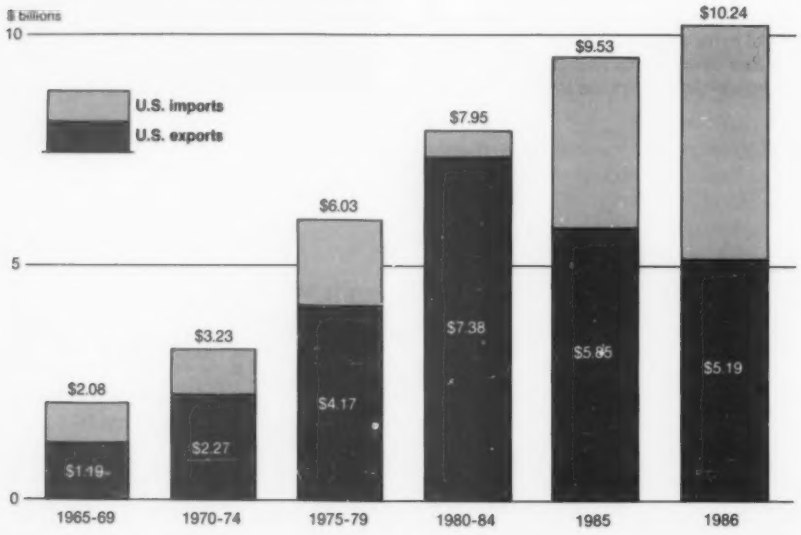
And now as the 1980's come to a close, the United States again has a trade surplus with Mexico, largely because of production shortfalls there.

Battles With Brazil

The United States must also deal with the changing position of its third largest single-country market for farm exports within the hemisphere—Brazil.

"Brazil has also emerged as a major competitor of the United States," says

U.S. Farm Trade with Western Hemisphere Countries Has Been Shifting From Exports to Imports



Ballenger. "Moreover, the U.S. agricultural trade deficit with Brazil increased from an average $399 million in 1965-69 to an average $1.259 billion in 1980-84."

The trends in U.S. trade with Brazil—and other nations of the hemisphere—underscore some key U.S. farm trade issues.

"The weakening position of the United States in world agricultural trade has generated considerable interest in prospects for growth in U.S. export markets and, at the same time, in the ability of the United States to compete effectively in those markets compared with other suppliers," says Ballenger.

More specifically, she says, the United States is facing the test of how to meet increasing competition from other major exporters in the Western Hemisphere, particularly Argentina in world grain and oilseed markets and Brazil in world soybean markets. The United States is also confronted with the problem of how to maintain and increase U.S. farm exports to developing country markets in the region, particularly Mexico, and the Andean and Caribbean countries.

"The recent proliferation of accusations of unfair trading practices that the United States has brought against Brazil and Argentina, for example, reflects U.S. concerns regarding its role in Western Hemisphere agricultural trade," says Ballenger.

Historically, the United States has been a net agricultural importer from Latin America. In the early 1980's, the U.S. agricultural trade balance with Latin America improved compared with the previous two decades.

"The stronger trade balance reflected, in large part, the improvement in the U.S. balance of payments positions with Mexico, the Caribbean Islands, and the Andean region," she says. "In contrast, the United States remained a large net agricultural importer from Brazil. And the U.S. agricultural trade deficits with the Central American region and the Southern Cone countries (Argentina, Paraguay, and Uruguay) also continued to grow."

In 1985-86, the U.S. agricultural balance of payments position with Latin America again deteriorated as its bilateral trade deficits with Mexico and the Andean region returned and grew.

U.S. Shopping List

Much of what the United States buys from other Western Hemisphere countries involves complementary products (products not widely produced in the United States), including coffee and bananas. Along with sugar and sugar products, these are the principal items the United States imports from Latin American nations. Also important are fresh vegetables and nontropical fruits from Mexico, and animals and animal products from Mexico and Argentina.

"The most important products the United States exports to Latin American countries are grains, oilseeds, animals, and animal products," says Ballenger. "Grains, grain preparations, animals, and animal products flow in both directions between the United States and Canada. Fruits, vegetables, and oilseeds are also important in U.S. exports to Canada."

For the future, the United States is hoping that trade relations with its hemispheric neighbors will be better governed by the General Agreement on Tariffs and Trade, which oversees most of the world's trade flows. To that end, the United States has taken a lead role in advocating that agriculture be incorporated more fully into the GATT framework of freer and more open trade.

"GATT's basic principles apply to agricultural and nonagricultural trade," says Ballenger. "GATT members, however, have typically shown reluctance to subject their agricultural and food policies to international scrutiny and discipline."

As a result, GATT negotiations have brought more liberalization to industrial than to agricultural trade, she says.

"Agricultural trade barriers are difficult to reduce due to the strong connection between trade barriers and domestic agricultural programs," says Ballenger. "Countries have generally been unwilling to submit their domestic policies to international review. Domestic agricultural and food policies, particularly internal price support programs and the operations of state marketing and distribution boards, often require the use of tariff and nontariff barriers to maintain higher or lower than world prices in domestic markets, and export subsidies to promote sales of high-priced goods on the world market."

Despite the limited success of the GATT in promoting freer agricultural trade, it remains the primary forum for negotiating resolutions of disputes over policies that affect trade.

Such disputes are on the rise and seem to point to the need for more clearly defined GATT rules on agricultural subsidies and other nontariff barriers.

Serious Impacts

Yet trade "liberalization" could lead to potentially serious disruptions for some Latin American countries, as well as some significant benefits.

"As net importers of basic foodstuffs, Latin American countries could be adversely affected," says Ballenger. "If freer trade were to lead to higher world grain prices (as some studies suggest), food importing countries could face difficult adjustments,

Most in Hemisphere Profit in Farm Trade

Agricultural trade in the Western Hemisphere turns on one fundamental fact—its importance.

"Farm trade is crucial to the economies of these nations, contributing to foreign exchange earnings, filling the gap between food needs and local production, and supplying products not produced in the country," says Ballenger. "And most nations in the region register yearly surpluses in their agricultural trade balance."

Recently, though, "the historically strong agricultural balance of payments positions of several subregions, such as the United States, Brazil, Canada, Central America, and the Southern Cone (Argentina, Paraguay, and Uruguay) have deteriorated," she adds. "During the 1980's, the agricultural trade balances of Mexico and the Andean region switched from positive to negative, and recently, back to positive."

For Mexico, agricultural exports—particularly fruits, vegetables, cotton, and coffee—were the most important foreign exchange earners before the new oil discoveries of the late 1970's. Before 1980, agricultural exports were over 30 percent of total Mexican exports, and the nation enjoyed a strong agricultural trade surplus.

More recently, she says, the country's agricultural exports represented about 7 percent of total exports, and for several years during this decade, Mexico was a net agricultural importer.

Moving further south—and east—agricultural trade surpluses remain extremely important to the economies of Brazil, Argentina, the Caribbean Islands, and Central America. At the same time, many of these nations are now burdened by large external debts and repayment problems.

"Agricultural exports are over 70 percent of total Argentine exports, 40 percent of total Brazilian exports, and 50 to 80 percent of total Caribbean and Central American exports," says Ballenger. "Brazil's and Argentina's agricultural trade surpluses grew rapidly until the mid-1980's. The growth of Central America's agricultural trade balance stagnated in the early part of this decade."

The Andean region of South America comprises highly diverse countries in terms of agricultural trade—Colombia, Venezuela, Ecuador, Peru, Bolivia, and Chile. For instance, Colombian agricultural exports are about 70 percent of the country's total exports, while those of Venezuela are virtually nil.

"During 1980-84, the Andean region suffered a reversal of the strong balance-of-payments position with the rest of the world that it had attained during 1975-79," says Ballenger. "The turnabout was associated with rapid growth of agricultural imports and relatively slow growth of agricultural exports. During 1985-86, this region's agricultural trade balance was again positive."

In effect, she notes, the Western Hemisphere continues to maintain a net agricultural trade surplus in relation to the rest of the world, but the 1980's brought a weakening of that position for a number of countries within the region.

at least in the short run. But some Latin American countries could also see sharp gains in their net export earnings as prices for key exports, particularly beef and sugar, strengthen."

And a more important issue must also be resolved.

Many countries in the hemisphere rely on state marketing boards and import licensing schemes to control trade and internal prices of agricultural products. These kinds of policies could receive more scrutiny under trade liberalization, reducing the degree of autonomy in agricultural decisionmaking which these countries enjoy.

"The extent to which Latin American agricultural policies would be affected depends not only on the outcome of the agriculture talks but also on the extent to which developing countries will be expected to comply with new GATT rules," says Ballenger.

Developing countries have typically received preferential treatment under GATT. For example, developing nations are subject to far less stringent rules than are developed countries regarding the issue of export subsidies.

GATT rules also already allow for more favorable treatment for the exports of developing countries through a "generalized system of preferences" (GSP), in the United States and other developed countries.

Most Latin American countries qualify for the U.S. GSP, except for Nicaragua, Cuba, Chile, Paraguay, and Panama. The top five beneficiaries of the duty-free status for agricultural products in 1986 were Argentina, Brazil, the Dominican Republic, Guatemala, and Mexico. As a percentage of their 1986 agricultural exports to the United States, the U.S. GSP was most important for Guyana, Uruguay, Argentina, Barbados, and Jamaica.

Overall, Latin American countries accounted for 62 percent of U.S. agricultural imports entering duty-free under the GSP in 1986.

There are some exemptions, however. In January 1988, the U.S. government deter-

mined that imports of several important commodities from a number of Latin American countries do not qualify for GSP treatment. These commodities include grain sorghum and dried apples from Argentina; guava paste and pulp from Brazil; some cut flowers from Colombia; and a number of fresh and preserved vegetables, and some fruits and beverages from Mexico.

Even so, what the U.S. GSP means is that at least a couple of countries that compete effectively with the United States in world markets for soybeans and grains benefit (as developing countries) when selling other agricultural items duty-free to the United States.

Of course, the United States has another interest at stake when it comes to Latin America—namely, that of a large exporter which wants its neighbors to enjoy the kind of economic growth that allows them to buy the exporter's goods.

At what point, then, do developing countries "graduate" to a position of no longer receiving special and differential treatment from developed countries? And can that progressive graduation be paced so that no serious economic disruptions result?

As the decade of the 1990's approaches, these are important questions that must be asked about the future of Western Hemisphere trade. □

[Based largely on information provided by economist Nicole Ballenger of the Commodity Economics Division, Economic Research Service.]

Canada, United States Eye Bilateral Gains in Vegetable Trade

This year's U.S.-Canada free trade agreement should push Canadian and U.S. market demands for fresh vegetables up by approximately 25 percent, says Amy Sparks of USDA's Economic Research Service.

The "free trade agreement" will dismantle tariffs over a 10-year period for all products traded between the two countries. Even though nontariff barriers will remain in place, Sparks says that theory suggests that there will be more competition between the two countries' products.

The United States and Canada are each others' largest export markets. Over 18 percent of total U.S. imports in 1988 were from Canada, while we exported almost 22 percent of our products to Canada.

Agriculture is a small portion of U.S. trade with Canada. Only about 5 percent of our agricultural exports have gone to Canada in the 1980's. Canadian figures show that Canada's agricultural trade with us is larger—32 percent of its exports and 57.5 percent of its imports in 1987.

The agreement with Canada will influence trade in fresh vegetables between the two countries, says Sparks, because vegetables comprise a significant proportion of the agricultural trade. U.S. Census data show that in 1987 vegetables were 16.5 percent of total U.S. agricultural exports to Canada and 5.6 percent of imports.

On Canada's side, vegetables made up 7 percent of its agricultural exports to the United States and 20 percent of its imports.

Sparks says that the tariffs for fresh vegetables between the two countries are at modest levels. They range from 15 to 20 percent of the product's value for the U.S. and 10 to 15 percent for Canada. The agreement will eliminate these at a rate of 10 percent per year for 10 years.

However, says the economist, for 20 years a temporary extra duty will be allowed if imports seriously threaten a domestic industry. The rules relevant to the enactment of the extra duty are:

- Import prices must be below 90 percent of the preceding 5-year monthly average for 5 working days. (The highest and lowest years would be excluded from consideration.)
- Planted area may not be higher than the previous 5-year average, again excluding the highest and lowest years.
- The combined temporary and normal duty may not exceed those for Most Favored Nations, a status allowed major U.S. trading partners which permits reduced tariffs or import restrictions.
- A temporary duty may be applied only once in a 12-month period.

The agreement does not address domestic policies which can influence the production and marketing of agricultural products, says the economist. In the United States, these include various supply control and marketing loan programs.

"Of particular relevance to imports are the federal and state marketing orders that set quality and sometimes limited quantity restrictions on the marketing of a variety of fresh fruits and vegetables. The orders also often impose standardized packaging regulations. Marketing orders are directed at domestic crops, but selected imports are required to comply," says Sparks.

In Canada, nontariff barriers include input and transportation subsidy programs. In addition, the Canada Agricultural Products Standards Act sets a series of grades, container standards, and content requirements on both domestic and import produce.

Sparks' study showed that with the elimination of tariffs, U.S. demand for Canadian vegetables would increase about 80 percent and Canadian demand for U.S. vegetables about 30 percent.

The study evaluated the effect on market demand with changes in price, income, and population. In the United States, changes in prices for vegetables and consumer income would result in proportionally smaller changes in demand for vegetables. Population changes would not significantly affect demand.

In Canada, however, as income rises, results from Sparks' study show that demand for vegetables falls. About one-quarter of U.S. vegetable exports to Canada are potatoes. Sparks says they could be perceived as an inferior good in Canada. Price would have little influence on demand for vegetables, but increased population would cause increased demand.

—Judith Foulke

United States Sets New Record In Grain Sales to Soviet Union

The Soviet Union was the leading buyer of U.S. grains in fiscal 1989.

Soviet purchases, in fact, were about 50 percent greater, by value, than the previous record high, according to economist Christian Foster of USDA's Economic Research Service.

The fiscal year ended September 30. Shortly before that date, Soviet purchases of U.S. wheat and corn had totaled 21.7 million tons, valued at nearly $3 billion.

The previous records, for both volume and value, were set in 1985, at about 18 million tons and over $2 billion.

The 1989 sales were nearly 50 percent larger in volume and more than 90 percent higher in value than fiscal 1988.

As of mid-September, sales of U.S. wheat to the Soviet Union totaled 5.4 million tons, of which 4.7 million tons were under the Export Enhancement Program (EEP). The EEP bonuses on Soviet purchases of U.S. wheat were valued at nearly $100 million in fiscal 1989 and have totaled $545 million over the 3 years the EEP has been in effect.

Soviet purchases of U.S. corn in 1989 were three times the previous year's total.

The EEP bonuses on Soviet wheat purchases for all of fiscal 1989 averaged about $21 per ton. They were only about $7 a ton in June. In fiscal 1987 the bonuses averaged about $42 a ton and in 1988 about $32.

"In the wheat market, U.S. fiscal 1989 sales to the Soviets were about 40 percent below the 1988 record of 9 million tons," Foster says. But much higher unit prices will maintain the value of U.S. sales at about 1988's $822 million, he adds.

The U.S. share of total Soviet wheat imports in fiscal 1989 is estimated to be down to about one-third, from about one-half the previous year, the analyst says. The European Community (EC), on the other hand, doubled its share from about 15 percent to about 30 percent.

Total Soviet wheat imports in 1989 were lower than the previous year. The reasons included increased Soviet wheat production and procurements in 1988 combined with higher world prices and tighter supplies due to the drought in the Western Hemisphere.

The corn market was where the big gains in U.S. sales occurred. Soviet purchases in 1989 were three times the previous year's total, at a record 16.3 million tons in 1989. And with the average unit price as well as volume up sharply, the value of the corn sales in 1989 should total about $1.9 billion, more than three times the previous year's $541 million, Foster says.

He lists these reasons for the substantial rise in U.S. corn sales:

1. Decreased Soviet production of feed grains and roughage crops in 1988.

2. Tight supplies of coarse grains in competitor countries due to the 1988 drought.

3. Prices favoring corn over wheat and corn over EC and Canadian barley.

4. Continued Soviet priority given to raising output of livestock products.

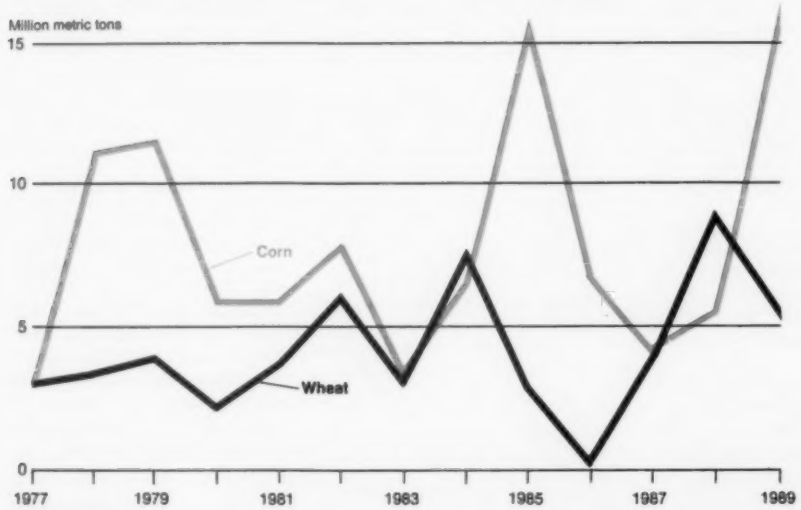
5. Improved political ties between the United States and the Soviet Union.

In fiscal 1989, the Soviets made their first significant purchases of U.S. grain sorghum. The total was more than 1 million tons as of mid-September.

The U.S. share of the total Soviet coarse grain market, it is estimated, will rise from about 50 percent in 1988 to about 70 percent in 1989, Foster says. "The increased U.S. share has been primarily at the expense of the EC," he adds.

News from the soybean market has not been as favorable for the United States, however. Soviet imports of U.S. soybeans in fiscal 1989 were only about one-half the 1988 total of 831,000 tons. The value of the sales, however, should be only slightly

U.S. Corn Exports to the Soviet Union Hit a Record High in 1988/89, While Wheat Sales Were Down From the Previous Year's Record



Fiscal years, October-September.

lower than last year's $172 million, because of sharply higher prices.

Overall, Soviet soybean imports were down for 1989 because of record oilseed production in the USSR in 1988 and limited Soviet crushing capacity. But total Soviet imports of soybean meal have been about 40 percent higher than the estimated 3 million tons in 1988.

U.S. sales of soybean meal are likely to just top 1988's record exports of 1.32 million tons, with the value of sales up by almost one-third from 1988's $279 million. The U.S. share of Soviet oilseeds and products imports in 1989 is likely to be down from 1988, with Brazil and Argentina increasing sales. Both countries sell meal in the preferred pelletized form.

For the second consecutive year, the Soviet Union fulfilled the minimum terms of its Long-Term Grain Agreement (LTGA) with the United States. In the previous 3 years, Foster says, the Soviets did not comply with the minimum terms of the agreement. The agreement allows the Soviets to purchase up to 12 million tons of wheat and corn annually without prior USDA approval. The maximum was raised three times in 1989, to 24 million tons.

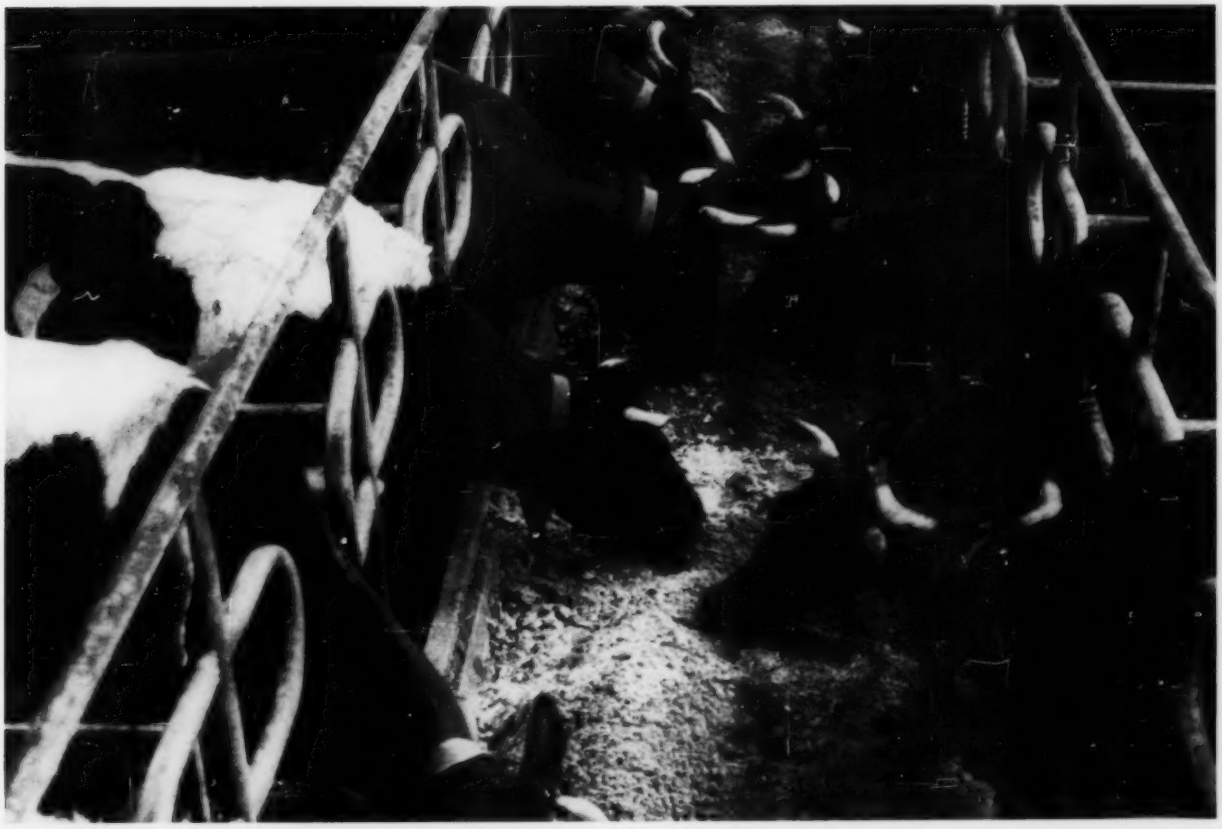
Negotiations on a new grain agreement are scheduled to begin in early December in Moscow. The current agreement, which was extended, will expire on December 31, 1990, Foster says.

An estimated increase in total Soviet grain production and internal procurements in 1990 is expected to slightly reduce overall Soviet grain import demand in 1990, Foster says. As a result, the United States is not likely to surpass the record volume of sales made in 1989. Reduced unit prices estimated for fiscal 1990 will keep the value of sales down even further, Foster says.

Reduced EEP bonuses on wheat sales and unit prices favoring corn over wheat could hold down U.S. wheat exports to the USSR. The minimum specified in the LTGA is 4 million tons.

U.S. corn exports, however, should remain as competitive in 1990 as in 1989. □

[Based primarily on information provided by economist Christian Foster of the Agriculture and Trade Analysis Division, Economic Research Service.]



The Great Plains and the Northwest Are the Major U.S. Wheat-Producing Areas

Wheat is grown in nearly every state, but the Great Plains area is the major Wheat Belt of the nation.

The top ten wheat-producing states include the band of six—North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, and Texas—stretching through the middle of the nation from Canada to Mexico. (The others in the top ten in 1987 were Washington, Montana, Colorado, and Minnesota, with Idaho just a whisker below tenth place.)

Total U.S. wheat production in 1987 was about 2.1 billion bushels, with nearly three-fourths of it winter wheat. The spring wheat crop of 541 million bushels included 92 million bushels of Durum (used primarily for pasta products).

Kansas, right at the geographical midpoint of the 48 contiguous states, is the leading wheat producer. In 1987, it grew 366 million bushels—17 percent of all U.S. wheat.

Virtually all the wheat grown in Kansas is winter wheat. It is planted in the fall, goes dormant over the winter, then resumes growing in the spring. Where winters are often harsh, in the far northern states, spring wheat usually does better.

North Dakota, the second leading wheat state overall, grows spring wheat almost exclusively. In 1987 it produced nearly half of all U.S. spring wheat. Four states—North Dakota, South Dakota, Minnesota, and Montana—together grew 90 percent of the spring wheat.

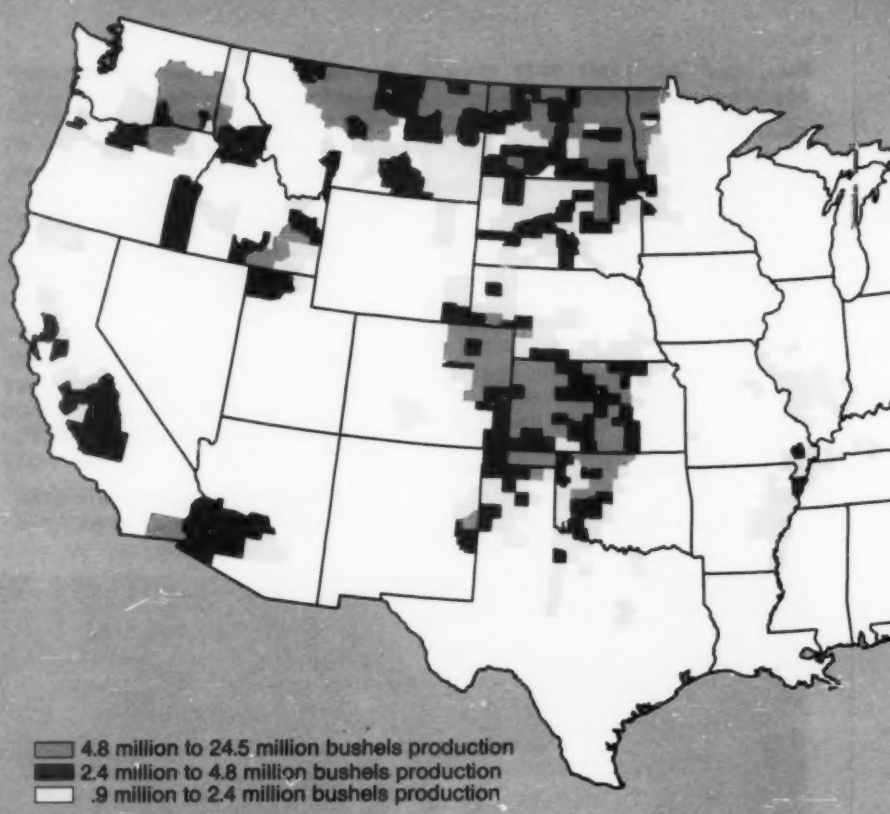
Spring wheat was among the crops seriously hurt by the 1988 drought. This year, it was winter wheat's turn to suffer from adverse weather. Kansas production is likely to be down by more than 35 percent from 1988.

The record year for U.S. wheat production was 1981, with nearly 2.8 billion bushels harvested. That was also the top year for acreage planted—88.3 million—and acres harvested—80.6 million. The best average yield, nationwide, was 1983's 39.4 bushels per acre.

Fewer acres have been planted in recent years because of large stocks, worldwide as well as in this country. But stocks have fallen sharply, in part because of the drought, and prices have been up as a result.

—Martha Evans

1987 wheat production by counties:

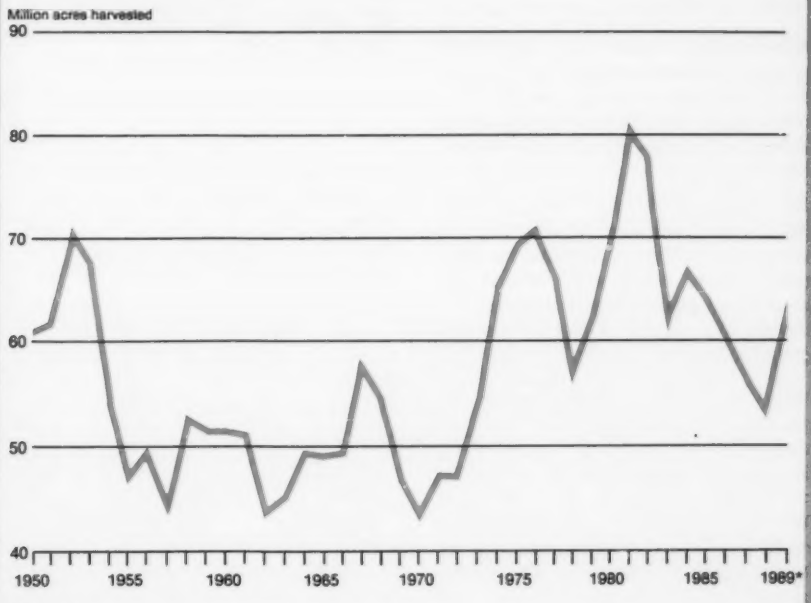

4.8 million to 24.5 million bushels production
2.4 million to 4.8 million bushels production
.9 million to 2.4 million bushels production

Kansas Was the Leading Wheat State in 1986, 1987, and 1988

1986		1987		1988	
	1,000 bushels		*1,000 bushels*		*1,000 bushels*
Kansas	336,600	Kansas	366,300	Kansas	323,000
N. Dakota	292,320	N. Dakota	269,120	Oklahoma	172,800
Oklahoma	150,800	Montana	151,220	Washington	124,620
Montana	138,520	Oklahoma	129,600	N. Dakota	103,390
Texas	120,000	Washington	114,285	Texas	89,600
Washington	116,850	S. Dakota	106,704	Colorado	79,540
S. Dakota	108,660	Minnesota	102,588	Missouri	77,500
Minnesota	103,666	Texas	100,800	Idaho	75,520
Colorado	96,430	Colorado	97,380	Nebraska	72,000
Idaho	81,750	Nebraska	85,800	Illinois	67,500
Total U.S.	**2,091,635**	**Total U.S.**	**2,107,480**	**Total U.S.**	**1,811,261**

Source: *Crop Production 1988 Summary*, January 1989.

Wheat Acreage Generally Increased in the 1970's and Decreased in the 1980's



*Estimated.
Data provided by National Agricultural Statistics Service.

There's a Green Forecast For Christmas Tree Sellers

American consumers bought a record 34.3 million Christmas trees in 1988, and are expected to purchase over 35 million this year.

Approximately 15,000 U.S. commercial growers of Christmas trees have more than 87 million trees of all ages planted on 1 million acres, according to economist Doyle Johnson of USDA's Economic Research Service.

The National Christmas Tree Association (NCTA), which has been promoting production and marketing of the trees for more than 30 years, says that the industry has been growing 2 to 2.5 percent annually for the last 15 years. This is at least twice the growth rate of the general population.

With a wholesale value of $680 million last year, Christmas trees rank ahead of several traditional agricultural commodities in total cash receipts, and not far behind some others. For instance, in 1987 oats brought in about $200 million, rice $500 million, sheep and lambs $600 million, barley $800 million, sugar cane $800 million, grain sorghum $1 billion, and peanuts $1 billion.

The U.S. Christmas tree industry has been growing 2 to 2.5 percent annually for the last 15 years.

Most of the U.S.-grown Christmas trees are planted as seedlings on farms, but about 10 percent come from natural stands. More than 100,000 people are employed full or part-time in the Christmas tree business.

Though the Christmas tree has been a custom in the United States since the Revolutionary War, trees have been grown for sale only since about the beginning of this century. The industry is still dominated by small operators and farms often are family operated. Large-scale farming by corporations has not yet emerged, Johnson says.

He further notes that Christmas tree farming offers a viable alternative opportunity for many U.S. farmers, but that the market can quickly become oversupplied, as with any specialty agricultural crop.

The top states in production of Christmas trees are Oregon, Michigan, Wisconsin, California, North Carolina, Washington, and Pennsylvania. A few large growers in the West and the Northwest harvest over 1 million trees each, but most operations are much smaller. Many producers grow Christmas trees on a part-time basis or to supplement other farm-related activities.

There are about 40 varieties of evergreens, but only a dozen or so species represent 75 percent of all commercially developed Christmas trees. About half the Christmas trees harvested in the United States are pines, mostly Scotch and White, but Virginia pine is also important, reports Johnson. While local or regional preferences may differ, market share by species nationally is Scotch pine, 36 percent; Douglas fir, 20 percent; and Balsam fir and White pine, 8 percent each. Ninety percent of the Christmas trees sold in this country are U.S.-grown, with the rest coming from Canada.

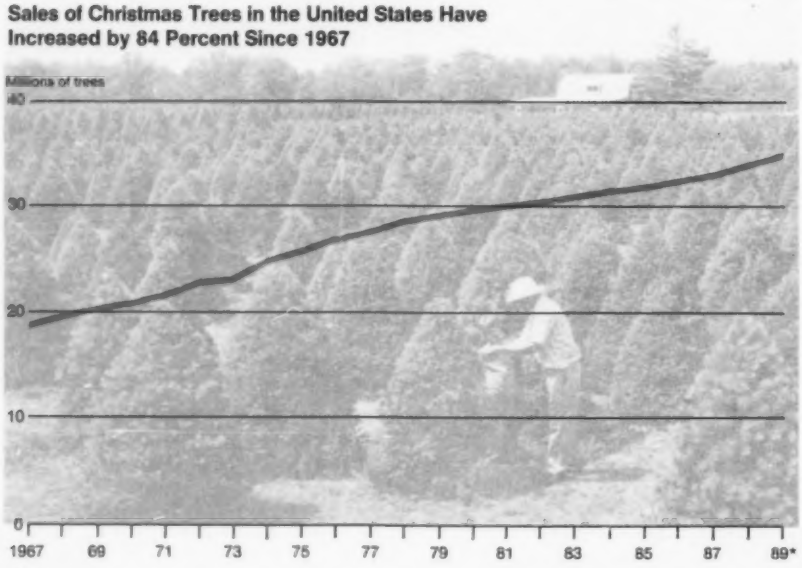
USDA's Agricultural Marketing Service has established specific size and quality standards for each Christmas tree species: U.S. Premium, Choice, and Standard. "Culls" are trees that fail to meet the lowest Standard grade. The standards were revised by USDA this year.

In 1988, growers received an estimated average of $12 per tree, while wholesale prices averaged about $20. Most trees, Douglas fir and Scotch pine, retail for $3 to $3.50 per foot, Johnson says. Consumers generally buy trees that are 6 to 7 feet tall. Spruce trees, the most expensive type, retail for $40 to $50. Pines are typically lower in price, especially in the South. Naturally, a premium tree commands a premium price, but usually requires longer to mature and more labor.

Christmas tree farming is not all glitter and tinsel. It takes hard work.

"You've got to be willing to work year round on a crop that might not be marketable for a good 6 years," says Fred

Sales of Christmas Trees in the United States Have Increased by 84 Percent Since 1967



*Projected.

Strathmeyer of Dover, PA, president of the NCTA. Depending on the species, it takes as long as 15 years to grow a tree to the average retail sale height of 6 feet. The average growing time is 7 years; the shortest is 4 years in the deep South.

Trees usually begin life as seeds in a nursery where they mature in 2 years to seedlings. The seedlings are then replanted in tree plantations, often in soil unsuitable for other crops.

Christmas tree farming is labor intensive. Each tree needs constant, skilled care to mature to a shapely tree. Most trees are sheared and pruned one to three times each year to correct uneven development

Choose-and-Cut Farm: 'A Very Personal Thing'

Howard and MaryEllen Babb of Umatilla, Florida, provide a special experience to families during the holiday season on their choose-and-cut Christmas tree farm. What began as a hobby for Howard when he retired at 70 from his job as postmaster of Umatilla is now a small but profitable business.

His wife is enthusiastic about their business. "We run a choose-and-cut operation on 6 acres of land," she says. "People come to cut Christmas trees with their families. They bring their cameras, even videos, to record the experience. Most of our customers are repeat. They come as early as Thanksgiving and from as far away as Miami (250 miles) to buy our trees. Every year so far we've had to turn people away."

The business was started in 1979 on an acre of land in the Babbs' backyard. From the beginning, MaryEllen says the business was a "very personal thing." People would call, and the Babbs would reserve their tree. They even received letters after Christmas thanking them for their trees. Soon demand grew so great, in 1983 they purchased 5 more acres.

The Babbs grow primarily Southern red cedars and Choctawhachee sand pine, trees suited to Florida's hot climate and sandy soil. Since trees grown in Florida are never dormant, they would not survive shipping and must be retailed locally. Choose-and-cut operations are ideal for Christmas tree growers like the Babbs who live in the deep South.

Once cut, the Christmas trees can be kept fresh indoors up to one month if put immediately in a tree preserver solution. MaryEllen shares her secret formula: one 12-ounce can of Sprite, one 12-ounce can of water, and one-half teaspoon of bleach (which kills bacteria).

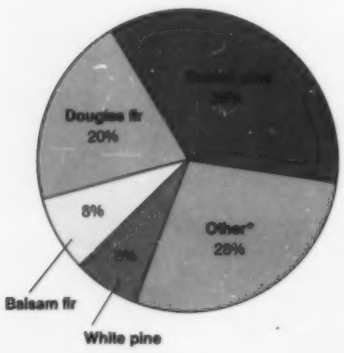
and arrest upward growth. This shaping process encourages branching and the full, bushy appearance Christmas tree buyers prefer.

Johnson points out that labor is very seasonal in the production of Christmas trees. Heavy labor demand periods are early spring for planting, late spring and summer for shearing, and the fall for harvesting.

At harvest time, the selected trees are tagged, cut, and loaded for shipment. They are shipped by truck and rail, destined for thousands of retail lots across the country. Most interstate shipments are from northern growing regions to southern markets. Little movement occurs south to north or from east to west.

There is a growing trend for Christmas tree farmers to open their tree farms as "choose-and-cut" to people who want to select and cut their own Christmas trees. Choose-and-cut operations are well suited to the deep South where trees are never dormant and so more perishable once cut.

Scotch Pine Is the Most Popular Type of Christmas Tree in the United States



*"Other" includes other pines, other firs, cedar, and spruce.

They are prevalent throughout the country, however, and their popularity has increased steadily over the past 10 years. At present there are approximately 5,000 choose-and-cut farms in the United States, according to NCTA.

What does the future hold for the Christmas tree industry? Indicators are mixed.

The Christmas tree business has had its economic ups and downs. The industry suffered its greatest blow in the 1950's when the artificial tree was introduced. Manufactured primarily in Korea, Taiwan, and Hong Kong, the artificial tree continues to take a very real bite out of the U.S. Christmas tree market.

The industry countered market erosion with its first national advertising campaign, RealTree, in 1988, featuring TV personality Willard Scott. Following a $1 million advertising assault on "fake" Christmas trees, preliminary NCTA retail reports were encouraging. Retailers' sales were up 6 percent over 1987. Choose-and-cut farms showed the greatest strength nationally with an average increase in sales of between 12 and 15 percent over 1987. And growers in most parts of the country showed increases on the order of 6 percent over 1987.

An increase in the number of family households of 16 million between 1970 and 1980 would indicate a growing market for real trees. On the other hand, slow population growth of 1 percent per year, coupled with a graying America, could mean more demand for artificial trees and less for real ones. The older generation, middle-aged America, tends to buy artificial trees or forego a tree altogether. The family unit—consisting of mom, dad, and about two kids—is the backbone of the real Christmas tree market.

In 1965, artificial trees held 20 percent of the available market for Christmas trees; in 1985, they held 47 percent of the market, a 135-percent increase in share in 20 years. The market could move another 10 to 12 percent in favor of the artificial tree by the mid-1990's, according to Strathmeyer.

While demographics could dampen demand, supply is up. The projected number of trees available for harvest in 1988 was 46 million, 18 percent more than available in 1987. NCTA says this is about 10 million more trees than were purchased in 1987.

A partial explanation for this increase in harvested trees may be the large number of new growers whose trees will be ready for the first time in the next 2 years. It looks like a buildup of supply over the next 5 to 7 years, according to Johnson. The buildup is due to overplanting following 1988 drought losses, as well as the abundance of new entrants to the Christmas tree industry.

The industry's primary response to its competition problems has been to step up marketing efforts. To find the money to support it, NCTA is pushing for a national marketing order to establish a Christmas tree commodity board. Such a board would require contributions based on fair-share formulas to supply funds to underwrite marketing, product promotion, and consumer research.

Other agricultural and timber commodities have benefited from marketing orders. The California raisin industry, for example, will spend $8 million in 1989. Potato producers have a $6 million program through their marketing orders. Beef, pork, and dairy marketing orders are producing $20 million to $80 million annually.

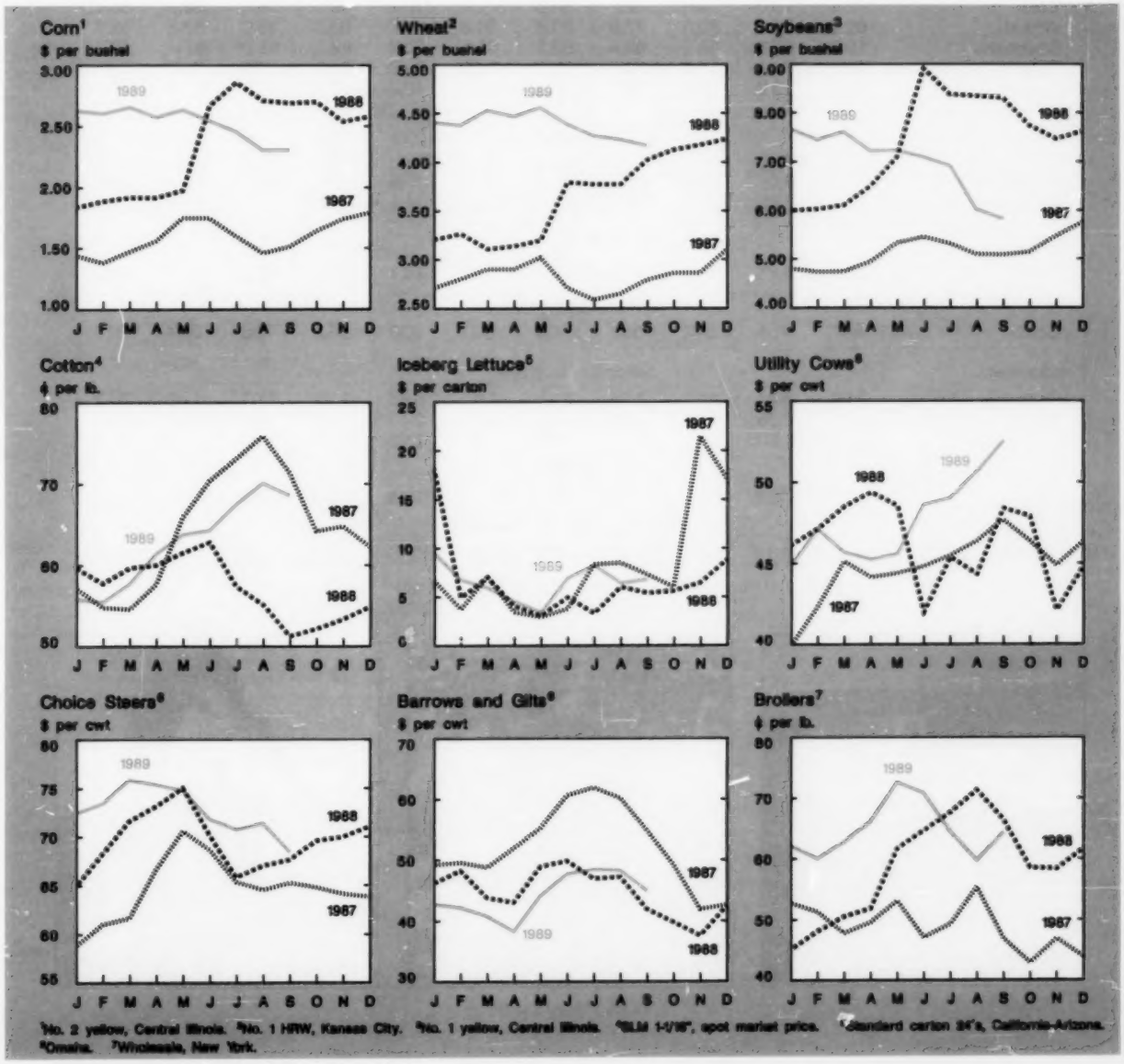
A marketing order for Christmas trees, however, is probably several years off. If the members vote to support a program in a nationwide referendum, the order must be established by Congress. A board would then be created under rules set by USDA.□

[Based primarily on information provided by economist Doyle Johnson of the Commodity Economics Division, Economic Research Service.]

Monthly Price Monitor

USDA's September 1989 inflation-adjusted index of farm prices decreased 0.7 percent from August and was down 0.7 percent from its year-earlier level.

Corn held steady at $2.30 per bushel. Wheat was down 6¢, the lowest price of the year at $4.16. Soybeans, at $5.81 per bushel, were down 20¢ from their August level and $1.84 less than at the beginning of the year. Cotton slipped 2¢ to 68.5¢ per lb. Lettuce rose 41¢ to $6.74 per carton. In the meat animals area, utility cows increased almost $2 to $52.50 per cwt. Choice steers lost almost $3.34 per cwt to $44.80. Broilers rose 4.6¢ to 64.2¢ per lb. All prices shown are monthly averages.



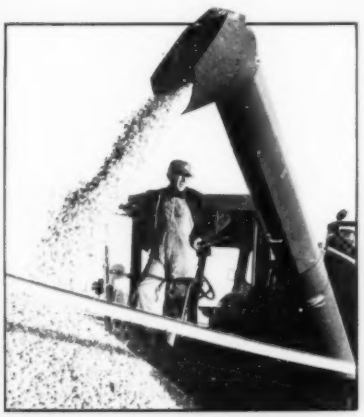
[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Omaha. [7]Wholesale, New York.

The 1989 Harvest Outlook

Increased acreage and higher yields, compared with 1988, increase production prospects for major field crops in 1989. Yields are below record levels due to weather problems at several locations.

Crop	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988* Est.*	*1989** Proj.*
Planted acreage					*millions of acres*						
Corn	81.4	84.0	84.1	81.9	60.2	80.5	83.4	76.7	65.7	67.6	72.3
Wheat	71.4	80.8	88.3	86.2	76.4	79.2	75.6	72.1	65.8	65.5	76.8
Soybeans	71.4	69.9	67.5	70.9	63.8	67.8	63.1	60.4	58.0	58.9	60.5
Rice	2.89	3.38	3.83	3.30	2.19	2.83	2.51	2.38	2.36	2.93	2.77
Cotton	14.0	14.5	14.3	11.3	7.9	11.1	10.7	10.0	10.4	12.5	10.5
Harvested acreage					*millions of acres*						
Corn	72.4	73.0	74.5	72.7	51.5	71.9	75.2	69.2	59.2	58.2	65.1
Wheat	62.5	71.1	80.6	77.9	61.4	66.9	64.7	60.7	56.0	53.2	62.7
Soybeans	70.3	67.8	66.2	69.4	62.5	66.1	60.4	58.3	57.0	57.4	59.1
Rice	2.87	3.31	3.79	3.26	2.17	2.80	2.49	2.36	2.33	2.90	2.75
Cotton	12.8	13.2	13.8	9.7	7.3	10.4	10.2	8.5	10.0	11.9	9.5
Yield					*bushels per acre*						
Corn	109.5	91.0	108.9	113.2	81.1	106.7	118.0	119.3	119.4	84.6	112.4
Wheat	34.2	33.5	34.5	35.5	39.4	38.8	37.5	34.4	37.7	34.1	32.9
Soybeans	32.1	26.5	30.1	31.5	26.2	28.1	34.1	33.3	33.7	26.8	32.0
					cwt. per acre						
Rice	46.0	44.1	48.2	47.1	46.0	49.5	54.1	56.5	55.6	55.1	55.5
					pounds per acre						
Cotton	547	404	542	590	508	600	630	552	706	619	618
Production					*billions of bushels*						
Corn	7.93	6.64	8.12	8.24	4.17	7.67	8.88	8.25	7.07	4.92	7.32
Wheat	2.13	2.38	2.79	2.76	2.42	2.59	2.43	2.09	2.11	1.81	2.06
Soybeans	2.26	1.80	1.99	2.19	1.64	1.86	2.10	1.94	1.92	1.54	1.89
					million cwt.						
Rice	131.9	146.2	182.7	153.6	99.7	138.8	134.9	133.4	129.6	159.5	152.3
					millions of 480 lb. bales						
Cotton	14.63	11.12	15.65	11.96	7.77	12.98	13.43	9.73	14.76	15.41	12.28

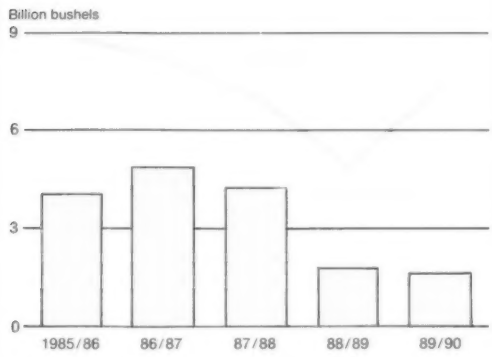
*Subject to revision in January 1990. **Based on crop conditions as of Sept. 1, 1989.



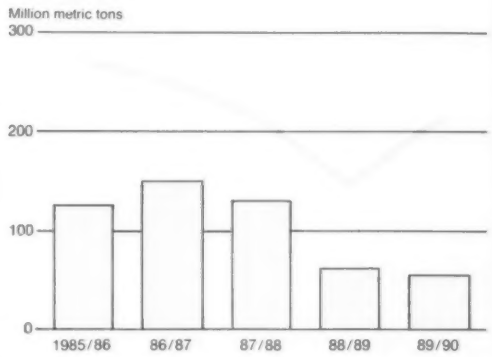
Production and Ending Stocks

The wheat, corn, and soybean crops suffered from drought in 1988 and 1989. However, ending stocks of corn and soybeans are at the desired level, but wheat is at approximately one-half. Corn production and stocks dominate the feed grain situation. The cotton crop got too much water, but cotton ending stocks are at the desired level. Rice production requires plenty of sunshine, and the 1989 crop suffered from mostly overcast skies. Ending stocks of rice are at one-half the desired level.

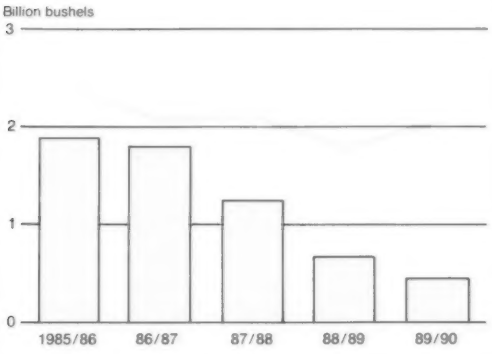
Corn



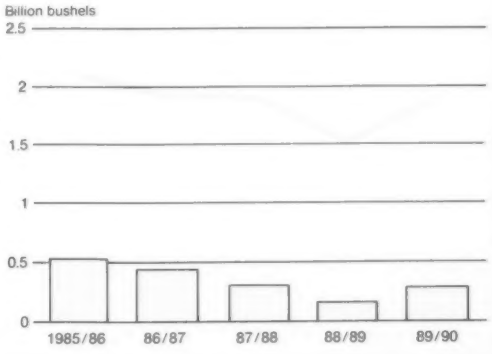
Feed Grains



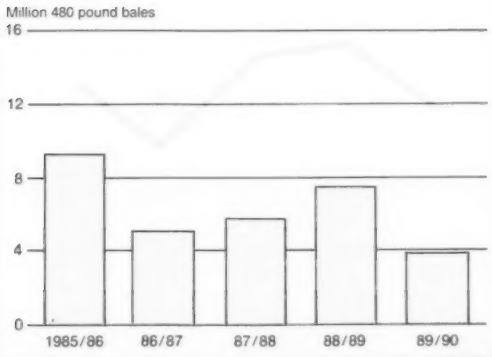
Wheat



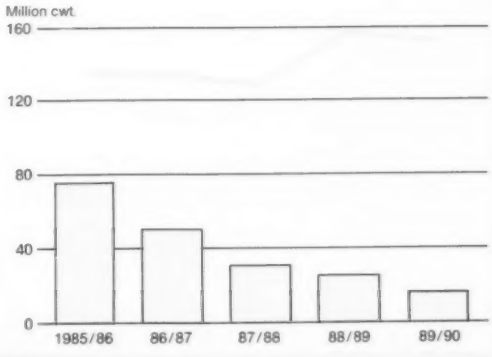
Soybeans



Cotton



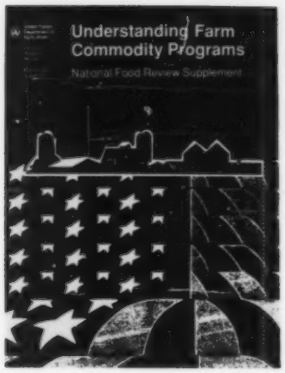
Rice



Marketing Year

Observations and data provided by Mack Leath, Commodity Economics Division.

—Judith Foulke



Will the EC Demand Changes in the U.S. TEA at the GATT?—A Terminology Guide

(The following definitions of terms are from "Understanding Farm Commodity Programs," an upcoming special edition of USDA's National Food Review magazine. See page 19 for information about how to order the publication.)

Acreage allotment. An individual farm's share, based on previous production, of the national acreage needed to produce sufficient supplies of a particular crop; acreage allotments are not currently used for any program commodity.

Acreage reduction program (ARP). A program in which farmers voluntarily reduce their planted acreage from their crop acreage base as a requirement for participation in the wheat, feed grains, upland and extra-long staple (ELS) cotton, and rice programs. Farmers are not paid for ARP reductions, although participation is necessary to be eligible for benefits such as Commodity Credit Corporation (CCC) loans and deficiency payments.

Conservation Reserve Program. A program under which farmers voluntarily contract to take highly erodible cropland out of production for 10 years and devote it to conserving uses. In return, farmers receive annual rental payments for the contract period.

Conserving uses. Land idled from production and planted in a soil conserving crop, such as annual or perennial grasses.

Deficiency payments. Government payments made to farmers who participate in wheat, feed grain, upland and ELS cotton, or rice programs. In most cases, payment rates (per bushel, pound, or hundredweight) are based on the difference between a target price and the national average market price for the first 5 months of the marketing year or the loan rate, whichever is higher. A farmer's deficiency payment is determined by multiplying the payment rate by the eligible quantity, which equals the permitted acreage times the program yield.

European Community (EC). An organization established by the Treaty of Rome in 1957 and also known as the European Economic Community and the Common Market. Originally composed of 6 European nations, it has expanded to 12. The EC attempts to unify and integrate member economies by establishing a customs union and common economic policies. Member nations include the original six countries of Belgium, West Germany, France, Italy, Luxembourg, and the Netherlands, as well as Denmark, Greece, Ireland, Portugal, Spain, and the United Kingdom.

Export Credit Guarantee Program (GSM-102). The largest U.S. agricultural export credit program, functioning since 1982. It guarantees repayment of private, short-term credit for up to 3 years.

Export Enhancement Program (EEP). Initiated in May 1985 to help U.S. exporters meet competitors' prices in subsidized markets. Under EEP, exporters are awarded generic certificates that are redeemable for CCC-owned commodities, enabling them to sell certain commodities to specified countries at prices below those of the U.S. market.

Farmer-owned reserve (FOR). A program designed to provide protection against wheat and feed grain production shortfalls and provide a buffer against unusually sharp price movements. Wheat and feed grain farmers can place eligible grain in storage and receive extended nonrecourse loans for 3 years, with extensions as warranted by market conditions. Interest on the loan may be waived by the Secretary of Agriculture, and farmers may receive annual storage payments from the government.

Federal marketing orders and agreements. A means for agricultural producers to collectively influence the supply, demand, price, or quality of particular commodities. When approved by a required number of a commodity's producers—usually two-thirds—the marketing order is binding on handlers of the commodity.

Food Security Act of 1985. The omnibus food and agriculture legislation signed into law on December 23, 1985, that provides a 5-year framework for the Secretary of Agriculture to administer various agriculture and food programs. The act amends permanent legislation (the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949) for the 1986 through 1990 crops.

General Agreement on Tariffs and Trade (GATT). An agreement, originally negotiated in Geneva, Switzerland, in 1947 among 23 countries, including the United States, to increase international trade by reducing tariffs and other trade barriers. This multilateral agreement provides a code of conduct for international commerce. GATT also provides a framework for periodic multilateral negotiations on trade liberalization and expansion. The eighth and most recent round of negotiations began in Punta del Este, Uruguay, in 1986.

Generic certificates. Negotiable certificates, which do not specify a certain commodity, that are issued by USDA in lieu of cash payments to commodity program participants and sellers of agricultural products. The certificates can be used to acquire stocks held as collateral for nonrecourse loans or owned by the CCC.

Intermediate Export Credit Guarantee Program (GSM-103). A program established by the Food Security Act of 1985 that complements the Export Credit Guarantee Program (GSM-102) but guarantees repayment of private credit for 3 to 10 years.

Loan rate. The price per unit (bushel, pound, or hundredweight) at which the government will provide loans to farmers so that they can hold their crops for sale at a later date.

Marketing loan. Authorizes producers to repay their nonrecourse loans at a lower "market" level. Marketing loans are mandatory for upland cotton and rice, and discretionary for wheat, feed grains, and soybeans.

Nonrecourse loans. Price-support loans to farmers that enable them to hold their crop for sale at a later date, usually within the marketing year. The loans are nonrecourse in that farmers can forfeit without penalty the loan collateral (the commodity) to the government as settlement of the loan.

Paid land diversion. A program that offers payment to producers to idle a percentage of their crop acreage base if the Secretary of Agriculture estimates that production will be excessive. The idled acreage is generally in addition to any reductions required by an acreage reduction program. Farmers are given a specific payment per acre.

Parity price. A measurement of the purchasing power of a unit (bushel, pound, or hundredweight) of farm product. Parity was originally defined as the

price that gives a unit of a commodity the same purchasing power today as it had in the 1910-14 base period. In 1948, the parity price formula was revised to allow parity prices for individual commodities to reflect a more recent relationship of farm and nonfarm prices by making the base price dependent on the most recent 10-year average price for commodities. Except for wool, mohair, and certain minor tobaccos, parity is not currently used to set price support levels for any program commodities. However, parity remains part of permanent legislation.

Payment limitation. A limit set by law on the amount of money a person may receive in farm program payments, such as deficiency and diversion payments, each year under the wheat, feed grain, upland and ELS cotton, and rice programs. The basic limit is currently $50,000. However, some program payments are exempt from the $50,000 limit—gains made from marketing loans, for example. The total limit of all such payments is $250,000 per person. (Persons are defined to be individuals, members of joint operations, or entities—such as limited partnerships, corporations, associations, trusts, and estates—that are actively engaged in farming.)

Permanent legislation. The statutory legislation upon which many agricultural programs are based. For the major commodities, the legislation is principally the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949. Although frequently amended, these laws go back into effect if current amendments, such as the 1985 Food Security Act, lapse and new legislation is not enacted.

Permitted acreage. The maximum acreage of a crop that may be planted for harvest by program participants. The permitted acreage is usually the crop acreage base less any land idled by acreage reduction and paid land diversion programs.

Program commodities. Federal support programs are available to producers of wheat, corn, grain sorghum, barley, oats, rye, ELS cotton, upland cotton, rice, milk, peanuts, soybeans, sugar, honey, wool, mohair, and tobacco.

Program yield. The commodity yield of record used in calculating deficiency payments. It is determined by averaging the program yield for the 1981-85 crops, dropping the high and low years. Program yields are constant for the 1986-90 crops.

Public Law 480 (PL 480). Common name for the Agricultural Trade Development and Assistance Act of 1954, which seeks to expand foreign markets for U.S. agricultural products, combat hunger, and encourage economic development in developing countries. Title I, also called the Food for Peace Program, makes U.S. agricultural commodities available through long-term dollar credit sales at low interest rates for up to 40 years. Donations for emergency food relief are provided under Title II. Title III authorizes "food for development" projects.

Target price. A price level established by law for wheat, feed grains, upland and ELS cotton, and rice. If the market price falls below the target price, an amount equal to the difference (but not more than the difference between the target price and loan rate) is paid to farmers who participate in these programs.

Targeted Export Assistance Program (TEA). A program authorized by the Food Security Act of 1985 that assists U.S. producer groups or regional organizations whose exports have been adversely affected by foreign government policies. TEA promotes exports of specific American commodities or products in specified markets. Under the program, eligible participants receive generic certificates in payment for promotional activities approved by the Secretary of Agriculture.

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